



THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

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AGC KEY VOTE

October 10, 2007

United States House of Representatives
Washington, DC 20510

Dear Representative:

The Associated General Contractors of America (AGC) is the largest of the nationwide trade associations of building, highway, heavy industrial and utility construction contractors. AGC's more than 32,000 members are deeply concerned about two significant business tax events that take place in 2011. First is the implementation of 3% withholding on all payments for construction at every level of government required by section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222). The second is equally or even more important: the significant increase in the death tax. Construction companies, because of the low margins and essential reliance on heavy equipment, are hyper-sensitive to both of these tax policy changes.

Construction companies oppose the 3% withholding because it will result in significant over-withholding for construction contractors. Construction companies work on slim profit margins, outbidding competitors by the smallest of amounts. According to the Construction Financial Management Association's 2006 survey, construction companies average 2.1% net profit on projects. Section 511 mandates that federal, state, and local governments withhold 3% from payments for goods and services. This results in the withholding of 250% of their net income and 350% of the actual tax liability, essentially an interest free loan to the government. Nowhere else is one's full take home pay (net income) withheld as a cost of doing business.

We appreciate the objective of the provision in HR 3056 which would delay implementation of section 511 by one year, but believe logic and fairness both dictate that Congress fully repeal section 511. A one-year or other delay of implementation doesn't fix the problem; it only temporarily relieves some of the pressure. AGC believes that with so many significant deadlines looming, Congress must focus sooner rather than later on the repeal of the 3% withholding, as well as deal with the simultaneous and significant increase scheduled for the death tax in 2011.

This is why AGC urges a yes vote for the motion to recommit. It will add the full repeal of the death tax to the important debate over 3% withholding.

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Our members are already forced to anticipate how and when Congress will address these two problems. Delaying the withholding implementation does not remove the burden for those construction companies who are bidding on multi-year projects which extend beyond 2011. In addition, planning for the death of a company owner and the involuntary transfer of assets which will be taxed remains one of the most important financial calculations that emerging small businesses make each year. AGC members' complex bid calculations require an assessment of cash-flow for bonding and loan purposes, calculations dramatically effected by these two laws. As you know AGC is an ardent advocate for H.R. 1023 (with 211 bipartisan cosponsors) which would simply repeal section 511 of TIPRA. Our members also continue to be strong supporters of permanent repeal of the death tax.

AGC members must focus on these laws and their effect, and so should Congress. Members should vote for the motion to recommit and continue all efforts to fully repeal the 3% withholding.

This will be an AGC will key vote.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeffrey D. Shoaf', written in a cursive style.

Jeffrey D. Shoaf
Senior Executive Director
Government and Public Affairs